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May 20, 2009

Arizona Corporation Commission
DOCKETED

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Docket Control
Arizona Corporation Commission
1200 West Washington
Phoenix, AZ 85007

RE: ENERGY EFFICIENCY TECHNICAL WORKING GROUPS
DOCKET NOS. E-00000J-08-0314 and G-00000C-08-0314

Attached please find Arizona Public Service Company's recommended key provisions for an Energy Efficiency Rule.

If you have any questions or concerns, please call Jeff Johnson at 602-250-2661.

Sincerely,

Leland R. Snook

Attachment

LRS/dst

Cc: Ernest Johnson
Brian Bozzo
Terri Ford
Barbara Keene
Julie McNeely

5/20/2009

Arizona Public Service
Recommended Key Provisions for an Energy Efficiency Rule
E-00000J-08-0314 & G-00000C-08-0314

INTRODUCTION

APS supports the adoption of a standard for energy efficiency and believes that any rule must include provisions to remove regulatory disincentives to fully align the interests of customers and utilities and enable a successful implementation of the standard. APS recommends that if an energy efficiency rule is adopted, it include the following key provisions:

THE STANDARD

1. The Arizona Corporation Commission ("Commission") shall set an overall policy objective of reducing retail energy sales by 18% by the year 2020 through a combination of utility programs and energy efficiency building codes and appliance standards. The Commission may express a policy statement concerning the role of energy efficiency building codes and appliance standards as part of the overall energy efficiency policy.

2. The energy efficiency standard from utility programs will be a 15% reduction in retail sales by the year 2020. Sales reductions from DSM programs beginning in January 2005 will be counted towards the standard.

3. While the net benefits from demand response will not be included in the performance incentive discussed below, demand response may comprise up to 3% (3 percentage points) of the 15% utility program standard. For purposes of compliance with the standard, the peak load reduction capability from demand response will be converted to an annual energy equivalent, based on an assumed 50% annual load factor.

4. The savings from DSM measures that are installed during the years applicable to the standard will be presumed to persist through the entire term of the standard. Measures that expire before 2020 will be assumed to be replaced at similar or better efficiencies.

5. The standard will allow for "self direction" for large customers and the resulting MWh saved will be counted toward the utility energy efficiency standard.

6. Annual progress guidelines will be projected to track progress towards the 2020 standard, although to provide some flexibility the actual performance in a given year may be above or below the guideline. The annual guidelines expressed as a percent reduction in retail sales are provided as follows:

Year	Cumulative Annual Energy Guideline % Retail Sales
2010	1.00%
2011	2.25%
2012	3.75%
2013	5.00%
2014	6.50%
2015	8.00%
2016	9.50%
2017	10.75%
2018	12.00%
2019	13.50%
2020	15.00%

RECOVERY OF PROGRAM COSTS AND PERFORMANCE INCENTIVES

1. Program costs and performance incentives shall be recovered concurrently with the program implementation. Utilities may recover the program costs and performance incentive associated with the standard through base rates and/or an adjustor mechanism.

2. Program costs may be either expensed or deferred and amortized (capitalized) over time at the utility's election, as established in an annual implementation filing.
    a. If amortized, the annual revenue requirements will be based on an interest rate equal to the utility's weighted average cost of capital and will be recovered over a period not to exceed five years. The annual revenue requirements will be recovered through an adjustor mechanism.

    b. If expensed, the total annual costs not recovered through base rates will be recovered through an adjustor mechanism based on the projected costs over the annual recovery period, subject to a true-up with interest in the subsequent period.

ADDRESSING UTILITY RATE MAKING DISINCENTIVES

1. The Rule shall establish a process to remove rate making or regulatory disincentives or barriers to utilities from implementing this standard.

2. To better align the interests of customers and the utility regarding energy efficiency, each utility shall file a proposal for rate making methodologies to remove regulatory disincentives. These methods may include one or more of the following: (1) modifying monthly customer charges to recover a higher portion of fixed costs from fixed charges and a lower portion from variable charges, (2) reflecting the projected reduction in kWh sales from programs in the billing determinants during a rate case, (3) using a future test year, (4) implementing attrition adjustments, (5) reflecting unrecovered fixed costs through a proforma revenue adjustment in a rate case, (6) decoupling mechanisms and other mechanisms designed to address this issue.

3. The Commission will issue a final order removing regulatory disincentives or barriers no later than each utility's next rate case after the approval of this standard.

4. To help alleviate a portion of the rate making disincentives before they are addressed as described above, an initial Enhanced Performance Incentive will be implemented for each year based upon the energy savings achieved by the utility multiplied by a per kWh incentive. The Enhanced Performance Incentive will equal the lifetime kWh energy savings times $0.0025 per kWh. The kWh from demand response programs will not be applicable to this incentive.

PERFORMANCE INCENTIVES

1. The Annual Performance Incentive for energy efficiency is tiered as a percent of net benefits, capped at a tiered percent of program costs. The Annual Performance Incentive shall be recoverable through the adjustor mechanism.

2. The Annual Performance Incentive combined with the initial Enhanced Performance Incentive discussed above shall not exceed 30% of the program costs in any year.

3. The Annual Performance Incentive shall be based on the achieved annual energy reduction relative to an annual target, which is established in the implementation plan, as provided below. While the equivalent kWh from demand response programs will be counted towards the annual target, the net benefits from demand response will not be included in the performance incentive.

Achievement Relative to MWh Target	Incentive as a Percent of Net Benefits	Capped at a percent of Program Costs
Less than 85%	0%	0%
85% to 95%	6%	12%
96% to 105%	7%	14%
106% to 115%	8%	16%
116% to 125%	9%	18%
Greater than 125%	10%	20%

PROCESS

1. Beginning June 1, 2010, and every June 1st thereafter, utilities will file an annual Implementation Plan for Commission review and approval. The Implementation Plan will include:
    a. A description of the utility's compliance with the requirements of the Energy Efficiency rules for the previous calendar year; and
    b. A plan that describes how the utility intends to comply with the rules for the next calendar year, including any necessary adjustments to the adjustor mechanism.

2. The Commission will adopt modifications to the utility's adjustor mechanism that will become effective on January 1st of the following year.

3. This process will replace and supersede any existing current Demand Side Management processes and/or compliance filings.

4. Energy Efficiency Rules will include waiver provisions similar to the Renewable Energy Standard Rules.